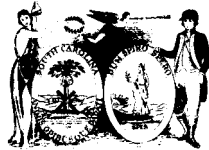


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

October 8, 2001

Mr. Eric Rogers, Controller
LexMed, Inc. d/b/a Lexington Medical Center Extended Care
815 Old Cherokee Road
Lexington, South Carolina 29072-9041

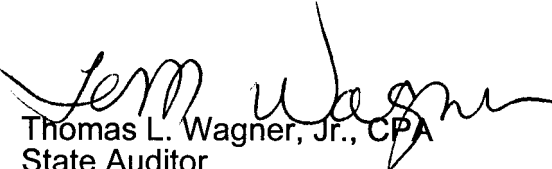
Re: AC# 3-LMC-J8 – LexMed, Inc. d/b/a Lexington Medical Center Extended Care

Dear Mr. Rogers:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract period beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph Hayes

**LEXMED, INC. D/B/A
LEXINGTON MEDICAL CENTER EXTENDED CARE**

LEXINGTON, SOUTH CAROLINA

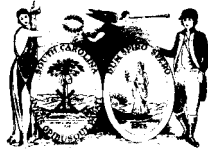
**CONTRACT PERIOD
BEGINNING OCTOBER 1, 1999
AC# 3-LMC-J8**

**REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 27, 2001

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with LexMed, Inc. d/b/a Lexington Medical Center Extended Care, for the contract period beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

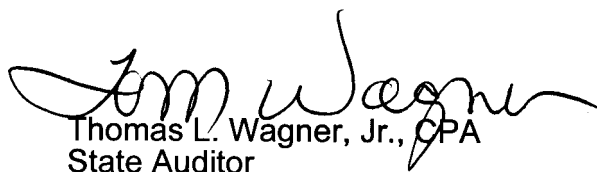
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by LexMed, Inc. d/b/a Lexington Medical Center Extended Care, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and LexMed, Inc. d/b/a Lexington Medical Center Extended Care dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
February 27, 2001

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA
State Auditor

LEXMED, INC. D/B/A LEXINGTON MEDICAL CENTER EXTENDED CARE

Computation of Rate Change
For the Contract Period
Beginning October 1, 1999
AC# 3-LMC-J8

	10/01/99- <u>09/30/00</u>
Interim reimbursement rate (1)	\$107.59
Adjusted reimbursement rate	<u>106.54</u>
Decrease in reimbursement rate	\$ <u><u>1.05</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 2000

LEXMED, INC. D/B/A LEXINGTON MEDICAL CENTER EXTENDED CARE
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 1999 Through September 30, 2000
 AC# 3-LMC-J8

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$52.31	\$50.88	
Dietary		9.21	9.69	
Laundry/Housekeeping/Maint.		<u>8.29</u>	<u>8.24</u>	
Subtotal	\$ <u>-</u>	69.81	68.81	\$ 68.81
Administration & Med. Records	<u>\$2.23</u>	<u>9.33</u>	<u>11.56</u>	<u>9.33</u>
Subtotal		79.14	<u>\$80.37</u>	78.14
<u>Costs Not Subject to Standards:</u>				
Utilities		2.91		2.91
Special Services		.58		.58
Medical Supplies & Oxygen		6.51		6.51
Taxes and Insurance		.61		.61
Legal Fees		<u>.03</u>		<u>.03</u>
TOTAL		<u>\$89.78</u>		88.78
Inflation Factor (3.00%)				2.66
Cost of Capital				10.87
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.23
Cost Incentive				-
Effect of \$1.75 Cap on Cost/Profit Incentives				(.48)
CNA Add-on				.75
Nurse Aide Staffing Add-On				<u>1.73</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$106.54</u>

LEXMED, INC. D/B/A LEXINGTON MEDICAL CENTER EXTENDED CARE

Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-LMC-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$ 6,524,480	\$ -	\$ -	\$ 6,524,480
Dietary	1,149,080	-	-	1,149,080
Laundry	329,458	-	-	329,458
Housekeeping	401,347	-	-	401,347
Maintenance	302,881	-	-	302,881
Administration & Medical Records	1,163,834	-	-	1,163,834
Utilities	363,509	-	-	363,509
Special Services	71,759	-	-	71,759
Medical Supplies & Oxygen	812,095	-	-	812,095
Taxes and Insurance	76,134	-	-	76,134
Legal Fees	3,722	-	-	3,722
Cost of Capital	1,486,650	23,207 (2)	135,938 (1) 18,556 (3)	1,355,363
Subtotal	12,684,949	23,207	154,494	12,553,662
Ancillary	212,861	-	-	212,861
Non-Allowable	1,221,719	135,938 (1) 18,556 (3)	23,207 (2)	1,353,006
Total Operating Expenses	<u>\$14,119,529</u>	<u>\$177,701</u>	<u>\$177,701</u>	<u>\$14,119,529</u>
Total Patient Days	<u>124,719</u>	<u>-</u>	<u>-</u>	<u>124,719</u>
Total Beds	<u>352</u>			

LEXMED, INC. D/B/A LEXINGTON MEDICAL CENTER EXTENDED CARE

Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-LMC-J8

ADJUSTMENT NUMBER	ACCOUNT TITLE	DEBIT	CREDIT
1	Nonallowable Loan Closing - Cost of Capital	\$135,938	\$135,938
	To adjust loan closing cost HIM-15-1, Section 233.4		
2	Cost of Capital Nonallowable	23,207	23,207
	To adjust facility depreciation and amortization per Cost of Capital policy State Plan, Attachment 4.19D		
3	Nonallowable Cost of Capital	18,556	18,556
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$177,701</u>	<u>\$177,701</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

LEXMED, INC. D/B/A LEXINGTON MEDICAL CENTER EXTENDED CARE

Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-LMC-J8

	<u>Original 132 Beds</u>	<u>176 Bed Addition</u>	<u>44 Bed Addition</u>	
Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.2493</u>	<u>2.2493</u>	<u>2.2493</u>	
Deemed Asset Value (Per Bed)	35,130	35,130	35,130	
Number of Beds	<u>132</u>	<u>176</u>	<u>44</u>	
Deemed Asset Value	4,637,160	6,182,880	1,545,720	
Improvements Since 1981	1,131,720	426,421	-	
Accumulated Depreciation at 9/30/98	<u>(1,603,094)</u>	<u>(872,988)</u>	<u>(111,308)</u>	
Deemed Depreciated Value	4,165,786	5,736,313	1,434,412	
Market Rate of Return	<u>.063</u>	<u>.063</u>	<u>.063</u>	
Total Annual Return	262,445	361,388	90,368	
Return Applicable to Non-Reimbursable Cost Centers	(1,669)	(2,250)	-	
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>1,496</u>	<u>1,759</u>	<u>-</u>	
Allowable Annual Return	262,272	360,897	90,368	
Depreciation Expense	260,013	352,441	63,974	
Amortization Expense	4,881	5,905	3,912	
Capital Related Income Offsets	(14,649)	(19,532)	(4,883)	
Allocation of Capital Expenses to Non-reimbursable Cost Centers	<u>(3,839)</u>	<u>(5,118)</u>	<u>(1,279)</u>	<u>Total</u>
Allowable Cost of Capital Expense	508,678	694,593	152,092	\$1,355,363
Total Patient Days (Actual Days)	<u>46,770</u>	<u>62,359</u>	<u>15,590</u>	<u>124,719</u>
Cost of Capital Per Diem	\$ <u><u>10.88</u></u>	\$ <u><u>11.14</u></u>	\$ <u><u>9.76</u></u>	\$ <u><u>10.87</u></u>

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